

NI PACOLET MILLIKEN UTILITIES

Allowable Ex Parte Briefing

Tuesday, September 17, 2019



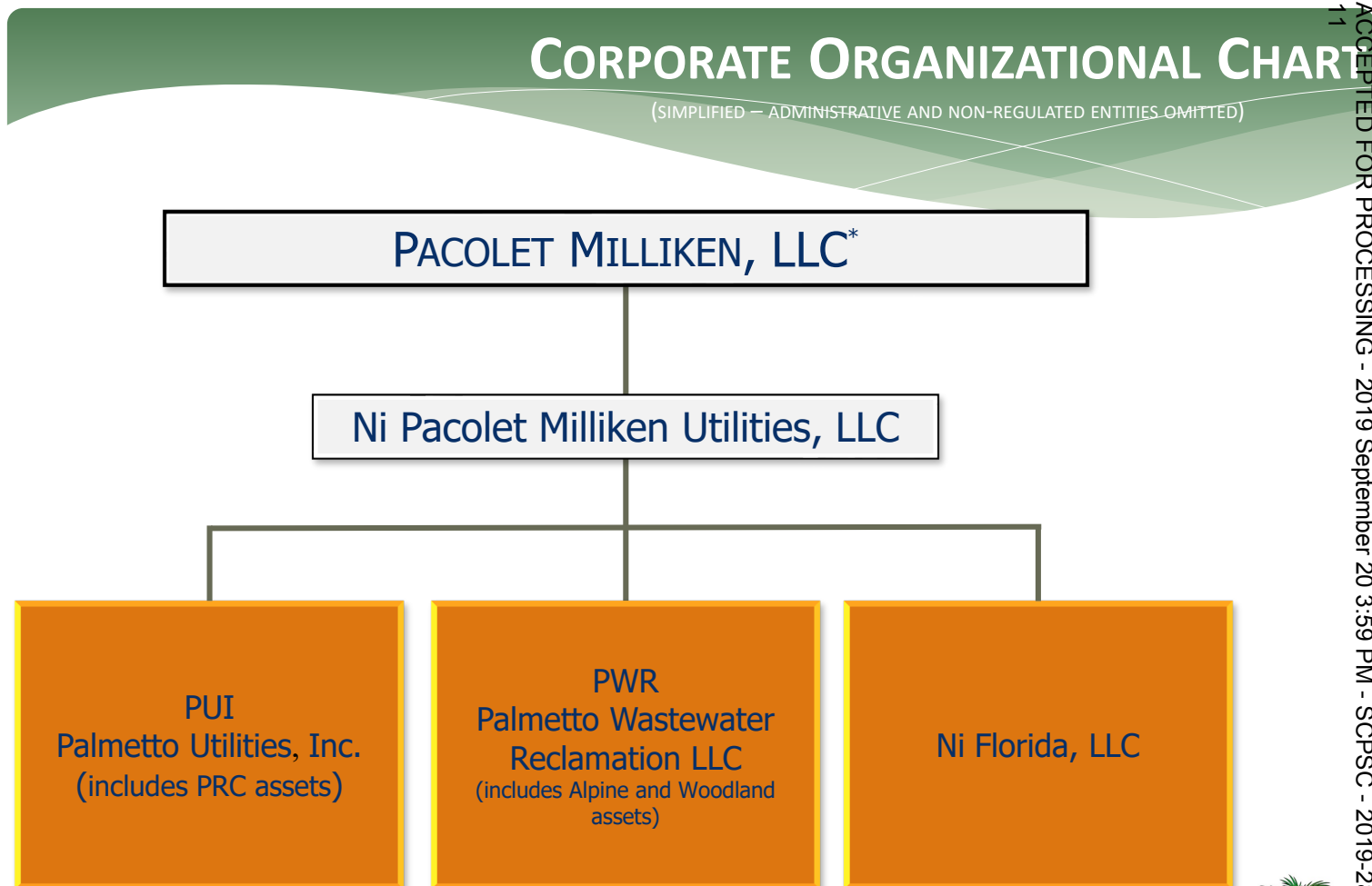
NI PACOLET MILLIKEN UTILITIES

Agenda

1. Introductions (Mark Daday, President, CFO; Bryan Stone, Chief Operating Officer)
2. Corporate Organizational Chart
3. Utility Descriptions
 - Palmetto Utilities, Inc. ("PUI")
 - Former Palmetto of Richland County ("PRC")
 - Palmetto Wastewater Reclamation ("PWR")
4. PUI \$80 Million Capital Project
5. Wastewater Rates
6. PRC Purchase
7. PRC Rate Base Facts
8. Municipal Asset Purchases Treatment
9. Questions/Comments



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* Pacolet Milliken, LLC is a private investment company owned by the Milliken family. Pacolet Milliken formed Ni Pacolet to purchase the Ni America group of companies in March 2015.



TWO NI PACOLET SC UTILITIES

Palmetto Utilities, Inc. (PUI)

- Mostly in NE Richland County, ~ 20,600 ERCs (excluding PRC's ERCs)
- 40-year history with low costs, solid operations
- One wastewater treatment plant – Spears Creek WWTP – the regional treatment facility under the Section 208 Water Quality Management Plan
- Treated wastewater is discharged into Wateree River
- \$80 million Capital Expenditure project complete (see slide)

Palmetto of Richland County (PRC) (merged into PUI in 2018)

- PRC was formed by Ni America (now Ni Pacolet) to acquire certain wastewater assets from the City of Columbia (which occurred in 2013)
- PRC bordered PUI to the west, and had ~ 13,300 ERCs
- PRC's wastewater now treated at PUI's Spears Creek WWTP

Palmetto Wastewater Reclamation LLC (PWR)

- Ni America purchased PWR in 2011 -- mostly in Lexington County, ~ 7,900 ERCs
- One 2.0 MGD wastewater treatment plant and one 0.3 MGD lagoon
- Previous owner had many spills, violations public concern; subject of EPA & DHEC penalties
- Since 2011, invested \$13 million - major plant refurbishment and collection system upgrade
- Dramatically reduced the number and severity of spills
- Rates still very low compared with peers (see slide 6)
- Major turnaround success story - all in concert with DHEC!



PUI MAJOR PROJECT / UPGRADES

Pacolet Invested ~\$80 Million in PUI/PRC Since Purchase

1. Northern Pipeline - **\$32 million**
 - Connected PRC (former City of Columbia customers) to PUI
 - Provided for additional growth in PUI
2. Spears Creek WWTP Upgraded to 12 MGD - **\$15 million**
 - Can accommodate expected growth
 - Built at a very competitive \$2.50 per gallon
 - Designed to easily & economically expand to 18 MGD
3. Wateree Discharge Pipeline - **\$19 million**
 - Allowed for closure of land application rapid infiltration basins
 - Environmental benefit of elimination of groundwater impacts
4. All other improvement & sustaining projects - **\$14 million**



NEIGHBORING WASTEWATER RATES

	Current
Town of Winnsboro ⁽¹⁾ ⁽²⁾	\$78.01
City of Columbia ⁽¹⁾ ⁽²⁾ *	\$71.25
Town of Lexington ⁽²⁾	\$70.56
Carolina Water	\$65.77
City of Cayce ⁽²⁾	\$55.98
Richland County – Broad River	\$55.68
Lexington County Joint Municipal ⁽¹⁾	\$52.82
Palmetto Utilities (PUI)	\$52.10
Midlands/DSI (Synergy)	\$43.00
City of Columbia (in city rates) ⁽¹⁾ *	\$41.88
Kershaw County ⁽¹⁾ ⁽⁴⁾	\$40.00
Palmetto Wastewater Reclamation (PWR)	\$37.58
East Richland County PS District ⁽³⁾	\$35.77

- (1) Assumes 6,000 gal. per month
- (2) Out of city rates
- (3) Includes estimate of ad valorem tax subsidies
- (4) Does not include the impact of any tax revenues used to support wastewater system

* Rates expected to rise significantly over the next 5 years due to \$750 million consent decree with EPA



PRC ASSET PURCHASE

- Purchased PRC in March 2013 for ~\$18 million
 - ~ 11,000 Equivalent Residential Customers (ERCs)
 - Acquired collection system and lift stations – no treatment plant
- PRC agreed to continue with the then-existing City rates and defer determination of PRC rate base until later.
- First rate case was in April 2018 – 5 years after purchase
 - During those 5 years, City rates increased 44%, PRC customers had “zero” increases
 - City’s rates for PRC customers would be \$71.25 (if PRC were still with the City)
 - PUI/PRC’s rates increased to \$52.10 in April 2018
 - PUI agreed to defer PRC rate base determination again, to spread out rate impact
- **PUI has received zero credit in rate base for PRC’s assets**



PRC RATE BASE FACTS

Background

- City accounting records were ill-kept and grossly incomplete
- City did not use NARUC accounting rules
- City's customer rates were not set by regulatory process
- City collected an "Expansion Fee" used only for the WWTP (not the collection system)
- The City used funds collected for sewer system for City's general fund*

Ni determined PRC's asset values / CIAC based on third party studies

- Common method used in industry
- Used third party valuation firms Joel Wood & Associates and Tangibl Group
- PricewaterhouseCoopers affirmed method and Ni's financial statements
- PUI then engaged Gannett Fleming to determine CIAC (see next page)

* The SC Supreme Court, in its 2015 *Azar v. City of Columbia* opinion, characterized the City's practice as "allowing these revenues to be treated as a slush fund" (i.e., for non-wastewater purposes).



ACCOUNTING ORDER REQUEST

Joel Wood/Tangible Valuation:

Gross Plant in Service	\$29,960,494
<u>Less: Accumulated Depreciation</u>	<u>(11,943,907)</u>
Net Plant	18,016,587
<u>Less: Donated Property (CIAC)</u>	<u>(876,826)</u>
Rate Base	\$17,139,761

- Donated Property (CIAC) is the 12 lift stations specified in the PRC asset purchase agreement donated by developers, for which PRC has proposed reducing rate base by the Donated Property amount (based on Gannett Fleming study)
- PUI's Position: The City of Columbia did not use cash CIAC to fund the collection assets and lift stations purchased. (based on Gannett Fleming study)



MUNICIPAL ASSET PURCHASES

(AS INFORMATION)

PUI believes that its position of \$17.1 million as the fair value for PRC's net rate base is the only valid, substantiated position. PUI's position is valid without regard to the Industry Issue referenced below.

Industry Issue: What is the rate base valuation of municipal assets purchased?

- A number of states have passed laws providing for guidance and relief in acquisition valuations
- Pennsylvania has made the purchase price = fair market value for ratemaking
- Others have provided that CIAC is not required to be deducted

Why? Municipal systems are in desperate need of capital investment

- Encourages private capital investment in these states
- The municipalities are getting the purchase price (which becomes rate base) paid to the city in advance, so in this respect the municipality "wins"

NOTE: This is simply provided as information. PUI stands by its italicized position above.



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QUESTIONS & COMMENTS

Mark Daday – President & CFO

Bryan Stone – Chief Operating Officer

